

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Ingham County Road Commission	County Ingham
Fiscal Year End 12/31/2006	Opinion Date 5/23/07	Date Audit Report Submitted to State 6/27/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

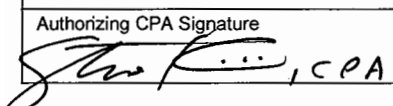
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Steven R. Kirinovic, CPA	License Number 1101022020	

**Ingham County Road Commission
Mason, Michigan**

FINANCIAL STATEMENTS

December 31, 2006

Ingham County Road Commission

TABLE OF CONTENTS

December 31, 2006

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-viii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Fund Balance Sheet	3
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	6
Notes to Financial Statements	7-18
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL OPERATING FUND	
Budgetary Comparison Schedule - Statement of Revenues - Budget and Actual	19
Budgetary Comparison Schedule - Schedule of Expenditures - Budget and Actual	20-21
OTHER SUPPLEMENTARY INFORMATION	
GENERAL OPERATING FUND	
Statement of Changes in Fund Balance	22
Analysis of Changes in Fund Balance	23
Analysis of Revenues	24
Analysis of Expenditures	25
Schedule of Changes in Capital Assets	26
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	27-29

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Ingham County
Mason, Michigan

We have audited the accompanying component unit financial statements of the governmental activities and the major fund of the Ingham County Road Commission, a component unit of Ingham County, Michigan as of and for the year ended December 31, 2006, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Ingham County Road Commission as of December 31, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 23, 2007, on our consideration of the Ingham County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the component unit financial statements that collectively comprise the Ingham County Road Commission financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Ingham County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 23, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the *Ingham County Road Commission*, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2006.

Financial Highlights

Net assets may, over time, enable governmental agencies to determine their overall fiscal position:

- Assets exceeded liabilities by \$91,136,194 at the end of the fiscal year.
- Total net assets increased by a net of \$2,588,279.
- There was no new bonded debt issued this year and no bonded debt outstanding at year end.

Overview of the Financial Statements

This discussion and analysis is prepared and reviewed by the management of the Commission, which includes the Board of Road Commissioners. It is intended to provide a basis for understanding of the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The *Statement of Net Assets* and the *Statement of Activities* report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

The component unit financial statements distinguish the function of the Road Commission, which is principally supported by state shared revenues (operating funds/grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Ingham County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Ingham County which reports the Road Commission as a component unit.

The government-wide financial statements can be found starting on page 1 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general operating fund balance sheet and the general operating fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general operating fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general operating fund balance sheet and in the general operating fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 7 through 18 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis and the Budgetary Comparison Schedules.

Because this is the fifth year of reporting under Governmental Accounting Standards Board Statement No. 34, which requires this reporting model, the following tables present a comparative analysis of government-wide data.

Condensed Statement of Net assets:	2005	2006
Current and other assets	\$ 4,000,936	\$ 5,318,735
Capital assets	<u>86,406,005</u>	<u>87,248,583</u>
Total assets	<u>90,406,941</u>	<u>92,567,318</u>
Current liabilities	1,371,816	1,070,718
Noncurrent liabilities	<u>487,310</u>	<u>360,406</u>
Total liabilities	<u>1,859,126</u>	<u>1,431,124</u>
Net assets:		
Invested in capital assets	86,257,669	87,177,527
Restricted	1,923,461	3,958,667
Unrestricted	<u>366,685</u>	<u>-</u>
Total net assets	<u>\$ 88,547,815</u>	<u>\$ 91,136,194</u>

Condensed Statement of Activities:

Revenues		
Charges for services	\$ 243,436	\$ 204,551
Intergovernmental	20,757,650	16,495,823
Interest	50,033	64,341
Other	<u>198,648</u>	<u>44,321</u>
Total revenues	<u>21,249,767</u>	<u>16,809,036</u>
Expenses		
Public Works	15,946,496	14,024,934
Interest expense	<u>14,169</u>	<u>4,662</u>
Total expenses	<u>15,960,665</u>	<u>14,029,596</u>
Other Financing Sources	(3,107)	-
Prior period adjustment	<u>-</u>	<u>(191,061)</u>
Net Increase in Net Assets	<u>\$ 5,285,995</u>	<u>\$ 2,588,379</u>

Both revenues and expenses are down in 2006 compared to 2005 due to the fact that there were less projects in 2006 that were done that could be funded by Federal and State project dollars. With less dollars available less projects were taken on.

Capital Assets and Debt Administration**2005****2006****Ingham County Road Commission Capital Assets**

Land and improvements - not depreciated	<u>\$ 18,686,457</u>	<u>\$ 19,341,611</u>
Buildings	6,164,367	6,164,367
Road Equipment	8,991,171	9,076,175
Shop Equipment	243,529	243,529
Office Equipment	768,065	761,341
Engineering Equipment	148,448	148,448
Yard & Storage Equipment	231,607	317,595
Signals	108,172	108,172
Infrastructure - Roads	107,215,506	109,397,233
Infrastructure - Bridges	9,091,222	11,401,419
Infrastructure - Subdivisions	<u>5,734,714</u>	<u>6,821,338</u>
Subtotal	<u>138,696,801</u>	<u>144,439,617</u>
Accumulated Depreciation		
Buildings and improvements	2,565,696	2,880,621
Equipment	8,702,022	9,187,457
Signals	6,916	14,128
Infrastructure - Roads	57,712,858	61,992,118
Infrastructure - Bridges	1,869,345	2,051,170
Infrastructure - Subdivisions	<u>120,416</u>	<u>407,151</u>
Total Accumulated Depreciation	<u>70,977,253</u>	<u>76,532,645</u>
Total capital assets being depreciated - net	<u>67,719,548</u>	<u>67,906,972</u>
Governmental activities capital assets - net	<u>\$ 86,406,005</u>	<u>\$ 87,248,583</u>
Long-term Debt		
Lease Purchase Agreements	\$ 148,336	\$ 71,056
Settlements	28,334	-
Compensated absences	<u>756,825</u>	<u>611,304</u>
Total	<u>\$ 933,495</u>	<u>\$ 682,360</u>

Additional information on the Road Commission's long-term debt can be found in Note D on pages 13 and 14 of this report. The Road Commission is significantly under the allowable debt limits and there was no change in our credit ratings during the year.

Financial Analysis

As noted in the above tables, the Road Commission's financial position for the current fiscal year indicates positive balances for net assets. These have increased from the prior fiscal year.

The largest portion of the Road Commission's net assets reflects the investment in capital assets such as buildings, vehicles, equipment and infrastructure required to perform our business activities. These net assets are reduced by any related debt used to acquire the assets that is still outstanding. Because these assets are needed to conduct business activities and serve the citizens of Ingham County, they are not available for future spending. Thus, the resources needed to repay this debt must be secured from other sources.

Economic Factors and Road Fund Budgetary Highlights

The Road Commission amended its 2006 budget during the year to reflect an increase in preservation and structural improvement expenditures and local roads maintenance, plus a slight decrease in long-term debt expense. These adjustments also included the reduced Michigan Transportation Fund (MTF) revenues resulting from increases in the cost of gasoline and diesel fuel and the budget balancing legislation at the state level. The net of all of these adjustments resulted in a net reduction to the Commission's expenditure budget of only approximately 4% and a net increase to the Commission's revenue budget of only approximately 3%. Actual revenues were only \$143,026 under the final amended budgeted revenues which was within approximately 1%. Actual expenditures were \$69,872 over budget compared to the final amended budget which was an overage of less than 1%.

Revenues exceeded Expenditures by \$1,722,459 in 2006, resulting in a fund balance at year-end of \$4,459,775. This is mainly due to less program dollars being expended as less projects were done in 2006 compared to 2005.

Requests for Information

This financial report is designed to provide a general overview of Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Director, Ingham County Road Commission, 301 Bush St., Mason, MI 48854.

BASIC FINANCIAL STATEMENTS

Ingham County Road Commission

STATEMENT OF NET ASSETS

December 31, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,424,676
Accounts receivable	17,151
Due from other governmental units	
State	2,012,253
Local	215,880
Inventory	645,048
Accrued interest receivable	<u>3,727</u>
Total current assets	5,318,735
Noncurrent assets	
Capital assets not being depreciated	19,341,611
Capital assets, net of accumulated depreciation	<u>67,906,972</u>
Total noncurrent assets	<u>87,248,583</u>
TOTAL ASSETS	92,567,318
LIABILITIES	
Current liabilities	
Accounts payable	439,226
Accrued liabilities	86,378
Security deposits payable	223,160
Current portion of compensated absences	275,087
Current portion of leases payable	<u>46,867</u>
Total current liabilities	1,070,718
Noncurrent liabilities	
Noncurrent portion of compensated absences	336,217
Noncurrent portion of leases payable	<u>24,189</u>
Total noncurrent liabilities	<u>360,406</u>
TOTAL LIABILITIES	<u>1,431,124</u>
NET ASSETS	
Invested in capital assets, net of related debt	87,177,527
Restricted for county roads	<u>3,958,667</u>
TOTAL NET ASSETS	<u><u>\$ 91,136,194</u></u>

See accompanying notes to financial statements

Ingham County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

	<u>Governmental Activities</u>
Program Expenses	
Primary Road	\$ 3,712,968
Local Road	2,058,170
Equipment - net	2,022,647
Administrative - net	1,308,704
Drain assessment	174,625
Infrastructure depreciation	4,747,820
Interest expense	<u>4,662</u>
 TOTAL PROGRAM EXPENSES	 14,029,596
Program Revenues	
Charges for services	204,551
Operating grants and contributions	9,918,725
Capital grants and contributions	<u>6,577,098</u>
 TOTAL PROGRAM REVENUES	 <u>16,700,374</u>
 NET PROGRAM REVENUES	 2,670,778
General Revenue	
Interest	64,341
Other	<u>44,321</u>
 CHANGE IN NET ASSETS	 2,779,440
Net assets, beginning of the year	88,547,815
Prior period adjustment	<u>(191,061)</u>
Net assets, end of the year	<u><u>\$ 91,136,194</u></u>

See accompanying notes to financial statements

Ingham County Road Commission

GOVERNMENTAL FUND BALANCE SHEET

December 31, 2006

	Governmental Fund Types
	<u>General</u>
	<u>Operating</u>
ASSETS	
Cash and cash equivalents	\$ 2,424,676
Accounts receivable	17,151
Due from other governmental units	-
State	2,012,253
Local	215,880
Inventory	645,048
Accrued interest receivable	<u>3,727</u>
TOTAL ASSETS	<u>\$ 5,318,735</u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 439,226
Accrued liabilities	86,378
Security deposits payable	223,160
Deferred revenue	<u>110,196</u>
TOTAL LIABILITIES	858,960
FUND EQUITY	
Fund balance	
Reserved for primary road	2,836,896
Reserved for local road	621,451
Reserved for MUSTFA	20,000
Unreserved - undesignated	<u>981,428</u>
TOTAL FUND EQUITY	<u>4,459,775</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 5,318,735</u>

See accompanying notes to financial statements

Ingham County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

Year Ended December 31, 2006

Total fund balance - governmental funds **\$ 4,459,775**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 163,781,228	
Accumulated depreciation is	<u>(76,532,645)</u>	
Capital assets, net		87,248,583

Long-term assets are not available to pay for current period expenditures
and are therefore deferred in the funds. These consist of:

Deferred revenue		110,196
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Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Fund Balance Sheet.

Long-term liabilities at year-end consist of:

Leases payable	\$ 71,056	
Compensated absences	<u>611,304</u>	
		<u>(682,360)</u>

Net assets of governmental activities **\$ 91,136,194**

See accompanying notes to financial statements.

Ingham County Road Commission

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended December 31, 2006

	<u>General Operating Fund</u>
REVENUES	
License and permits	\$ 194,447
Intergovernmental	16,495,823
Charges for services	10,104
Interest	64,341
Other	<u>81,053</u>
TOTAL REVENUES	16,845,768
EXPENDITURES	
Current	
Primary Road	7,673,154
Local Road	5,101,858
Equipment - net	1,158,487
Administrative - net	1,360,019
Drain assessment	174,625
Capital outlay - net	(426,776)
Debt Service	<u>81,942</u>
TOTAL EXPENDITURES	<u>15,123,309</u>
CHANGE IN FUND BALANCE	1,722,459
Fund balance, beginning of year	2,928,377
Prior period adjustment	<u>(191,061)</u>
Fund balance, end of year	<u><u>\$ 4,459,775</u></u>

See accompanying notes to financial statements

Ingham County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2006

Net change in fund balance - total governmental funds **\$ 1,722,459**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental fund. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 6,577,098	
Building and equipment depreciation	(986,700)	
Infrastructure depreciation	<u>(4,747,820)</u>	
 Excess of capital outlay over depreciation expense		 842,578

In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental fund, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of capital assets sold.

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Decrease in deferred revenue	(36,732)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

	77,280
Principal retirement	

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental fund. These activities consist of:

Decrease in judgments payable	28,334	
Decrease in accrued compensated absences	<u>145,521</u>	
		<u>173,855</u>

Change in net assets of governmental activities **\$ 2,779,440**

See accompanying notes to financial statements.

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ingham County Road Commission (the "Commission") is a component unit of Ingham County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission, which is established pursuant to the County Road Law (MCL 224.1), operates under an appointed Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to sixteen (16) Townships in Ingham County and maintains over 1,200 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Ingham County Road Commission. The Commission is considered a component unit of Ingham County, Michigan and is discretely presented in Ingham County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Mason, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

The statement of activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

- a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The governmental fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues which are considered measurable, but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance

5. Budgets and Budgetary Accounting

The Managing Director, acting as the chief administrative officer, submits a proposed budget for the upcoming year to the Road Commissioners. The budget is reviewed by the Road Commissioners and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a functional basis. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The Board has authorized the chief administrative officer to amend the Road Commission's budget when necessary to reflect the effects of the distribution of the distributive account and other amendments to the budget as needed. The budget is prepared on the modified accrued basis of accounting, which is the same basis as the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

6. Cash and Cash Equivalents

Cash and cash equivalents consist of the Commission's checking and savings accounts; imprest cash; and short-term investments in certificates of deposit, mutual funds, and commercial paper with an original maturity of 90 days or less.

Cash equivalents are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

7. Inventories

Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

8. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Ingham County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 required major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings and improvements	40 years
Equipment	5 - 10 years
Infrastructure	8 - 50 years

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities within in the Operating Fund Statement of Net Assets.

10. Accrued Compensated Absences

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated leave time under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated leave time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

11. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

12. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Ingham County Treasurer's Office, and in order to make disbursements, the Ingham County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

As of December 31, 2006, the carrying amounts and the bank balances for each type of bank account are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking accounts	\$ 633,176	\$ 633,176
Savings accounts	5,692	5,692
Certificates of deposit	<u>570,000</u>	<u>570,000</u>
	<u>\$ 1,208,868</u>	<u>\$ 1,208,868</u>

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2006, the Commission's accounts were insured by the FDIC for \$205,692 and the amount of \$1,003,176 was uninsured and uncollateralized.

The cash and cash equivalents caption on the balance sheet includes \$500 in imprest cash.

Due to significantly higher cash flow at certain periods during the year, the amount the Commission held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Investments

As of December 31, 2006, the Commission had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's/S&P Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Commercial Paper - Daimler Chrysler	\$ 815,308	\$ 815,308	A-2/P-2	39 days
Uncategorized pooled investments				
CADRE - Cash Management Funds	350,000	350,000	Not Rated	N/A
Municipal Investment Fund	<u>50,000</u>	<u>452,457</u>	Not Rated	N/A
	<u>\$ 1,215,308</u>	<u>\$ 1,617,765</u>		

The difference between the carrying amount and the market value for the above Municipal Investment Fund was due to outstanding checks at year-end drawn on this particular uncategorized pooled investment.

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Commission's investments were not subject to rating by a NRSRO.

Interest rate risk

Since the Commission is required to have all investing go through the Ingham County Treasurer, the Commission has, in effect, adopted the County's policy that indicates how the County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

Since the Commission is required to have all investing go through the Ingham County Treasurer, the Commission has, in effect, adopted the County's policy that indicates how the County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Commission's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

Since the Commission is required to have all investing go through the Ingham County Treasurer, the Commission has, in effect, adopted the County's policy that indicates how the County will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2006 was as follows:

	Balance <u>Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2006</u>
Capital assets not being depreciated				
Land and land improvements	\$ 1,964,787	\$ 9,340	\$ -	\$ 1,974,127
Infrastructure - land improvements	<u>16,721,670</u>	<u>645,814</u>	<u>-</u>	<u>17,367,484</u>
Subtotal	18,686,457	655,154	-0-	19,341,611
Capital assets being depreciated				
Buildings	6,164,367	-	-	6,164,367
Equipment -				
Road	8,991,172	225,500	(140,497)	9,076,175
Shop	243,529	-	-	243,529
Office	383,889	-	-	383,889
Computer	384,176	31,908	(38,632)	377,452
Engineer	148,448	-	-	148,448
Yard and storage	231,607	85,988	-	317,595
Signals	108,172	-	-	108,172
Infrastructure - roads	107,215,506	2,181,727	-	109,397,233

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE C: CAPITAL ASSETS - CONTINUED

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006
Capital assets being depreciated - continued				
Infrastructure - bridges	\$ 9,091,222	\$ 2,310,197	\$ -	\$11,401,419
Infrastructure - subdivisions	<u>5,734,714</u>	<u>1,086,624</u>	<u>-</u>	<u>6,821,338</u>
Subtotal	138,696,802	5,921,944	(179,129)	144,439,617
Less Accumulated Depreciation				
Buildings	(2,565,696)	(314,925)	-	(2,880,621)
Equipment -				
Road	(7,617,905)	(536,796)	140,497	(8,014,204)
Shop	(177,260)	(15,889)	-	(193,149)
Office	(345,201)	(13,542)	-	(358,743)
Computer	(270,962)	(74,262)	38,632	(306,592)
Engineer	(100,448)	(24,074)	-	(124,522)
Yard and storage	(190,247)	-	-	(190,247)
Signals	(6,916)	(7,212)	-	(14,128)
Infrastructure - roads	(57,712,858)	(4,279,260)	-	(61,992,118)
Infrastructure - bridges	(1,869,345)	(181,825)	-	(2,051,170)
Infrastructure - subdivisions	<u>(120,416)</u>	<u>(286,735)</u>	<u>-</u>	<u>(407,151)</u>
Subtotal	<u>(70,977,254)</u>	<u>(5,734,520)</u>	<u>179,129</u>	<u>(76,532,645)</u>
Net Capital Assets Being Depreciated	<u>67,719,548</u>	<u>187,424</u>	<u>-0-</u>	<u>67,906,972</u>
Total Net Capital Assets	<u>\$86,406,005</u>	<u>\$ 842,578</u>	<u>\$ -0-</u>	<u>\$87,248,583</u>

Depreciation expense was charged to the following activities:

	Amount
Net Equipment Expense	
Direct Equipment	\$ 760,603
Indirect Equipment	103,557
Net Administrative Expense	122,540
Infrastructure	<u>4,747,820</u>
	<u>\$ 5,734,520</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2006:

	Balance Jan. 1, 2006	Additions	Deletions	Balance Dec. 31, 2006	Amounts due within one year
Governmental Activities					
Lease purchase agreements	\$ 148,336	\$ -	\$(77,280)	\$ 71,056	\$ 46,867
Settlements	28,334	-	(28,334)	-0-	-
Compensated Absences	<u>756,825</u>	<u>-</u>	<u>(145,521)</u>	<u>611,304</u>	<u>275,087</u>
	<u>\$ 933,495</u>	<u>\$ -0-</u>	<u>\$(251,135)</u>	<u>\$ 682,360</u>	<u>\$ 321,954</u>

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portions) are presented below.

Lease Purchase Agreements

\$139,200 Lease purchase agreement with John Deere Company consists of an obligation for two wheel loaders. Quarterly payments of \$12,289 include interest of 4.25% with the last payment due on May 10, 2008. The cost of the loaders under the lease purchase agreement amounted to \$197,700. The lease purchase agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception.

\$ 71,056

The annual requirement to pay the debt principal and interest outstanding for the above lease is as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 46,867	\$ 2,287
2008	<u>24,189</u>	<u>388</u>
	<u>\$ 71,056</u>	<u>\$ 2,675</u>

Compensated Absences

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused leave time under formulas and conditions specified in their respective personnel policies and/or contracts.

Accumulated leave time and related payroll taxes represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a total liability of \$611,304. The Commission has determined the current portion of the total liability to be \$275,087 and the long-term portion of the liability to be \$336,217 at December 31, 2006.

NOTE E: FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal assistance for Highway Research, Planning and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditure is required to be audited for compliance under the Single Audit Act through Commission procurement. The reason for this requirement is that the Commission is required to have accounting and administrative control over the force account portion while the balance is administered by Michigan Department of Transportation.

During the period ended December 31, 2006, the Road Commission of Ingham County had no federal financial assistance (local force revenue) applicable to force account expenditures. As a result, an audit for compliance under the Single Audit Act is not required.

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Commission participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time employees are covered by the retirement system.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 55 with 20 or more years of credited service
Age 60, if vested.

Reduced Retirement:

Age 50 with 25 or more years of credited service
Age 55 with 15 or more years of credited service
Age 60 with 10 or more years of credited service

Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after vested is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees contribute 0% of their annual salary to the retirement system. The Road Commission currently contributes the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2006 the Commission's annual pension cost of \$777,373 for the plan was equal to the Road Commission's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2004, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Ingham County Road Commission
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$19,792,516	\$20,630,903	\$21,367,811
Actuarial accrued liability (AAL)	24,157,395	26,235,825	27,326,707
Unfunded AAL	4,364,879	5,604,922	5,958,896
Funded ratio	82%	79%	78%
Covered payroll	4,659,401	4,957,245	4,830,923
UAAL as a percentage of covered payroll	94%	113%	123%
Annual pension cost	751,334	748,758	777,373
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE G: OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits, the Commission provides certain health care benefits and life insurance, in accordance with union agreements and/or personnel policies to employees who have retired. In 2006, the Commission offered the retirees a choice between 2 Plans. One plan was a PPO and the other plan was a HMO, both are health programs, which pay for claims (less deductible and co-pay) in accordance with the group that the employee retired from. The Prescription Drug Program that is offered in accordance with both of the above plans is a self-insured program. For most retirees, the premium is based on the cost of the Prescription Drug Program. The Road Commission pays for 100% of the Health Portion of the insurance. For retirees or beneficiaries of retirees that retired before January 1, 1991, whose monthly benefits from Michigan Municipal Retirement System is \$800 or less, the Ingham County Road Commission will pay the premium for the Prescription Drug Program. The activity related to the process is accounted for in the 513 activity within the General Operating Fund. The 513 activity recognizes the payments of insurance as an expense and the premiums collected from retiree as an offset to that expense. Currently, fifty-six (56) retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized when the insurance premiums become due. During the year, expenditures of \$394,638 with a reimbursement amount \$140,941 were recognized for post-employment health care for a net cost of \$253,697.

The Commission also pays the life insurance premium for those retirees under a \$5,000 or \$10,000 policy. The total monthly premium was \$0.71/thousand dollars of coverage. In 2006 forty-one (41) retirees were covered at the \$5,000 level and thirteen (13) retirees at the \$10,000 level, for a monthly cost of \$237.85 to the Commission. Expenditures are recognized as the insurance premiums become due.

NOTE H: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

There are potential legal actions pending with the Commission. Due to the inconclusive nature of the actions, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by the Commission and legal counsel to be immaterial.

Ingham County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE I: RISK MANAGEMENT

The Commission is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters.

The Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management and loss control services pursuant to Michigan Public Act 138 of 1982. In the event that the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Road Commission has not been informed of any special assessments being required.

The Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund. The Commission has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. In the event that the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Road Commission has not been informed of any special assessments being required. The Commission pays quarterly premiums to the Pool for workers' compensation insurance and occupational therapy. Employee medical benefits insurance is purchased through PHP and MERS.

At December 31, 2006, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years.

NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the financial statements, the Ingham County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Ingham County Road Commission has been adopted the activity level for the General Operating Fund.

	Amended Amount <u>Appropriated</u>	Actual Amount <u>Expended</u>	<u>Variance</u>
General Operating Fund			
Local Road			
Structural improvements	\$ 1,760,612	\$ 1,761,453	\$ 841
Equipment			
Indirect	1,355,822	1,360,658	4,836
Capital outlay - net	(515,106)	(426,776)	88,330

Ingham County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE K: FUND BALANCE RESERVES

Reserved fund balance within the fund level financial statements is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2006:

General Operating Fund	
Reserved for	
Primary Road	\$ 2,836,896
Local Road	621,451
MUSTFA	<u>20,000</u>
	<u>\$ 3,478,347</u>

NOTE L: PRIOR PERIOD ADJUSTMENT

The following prior period adjustment was made during the year, which was the result of a correction of an error. This adjustment was reported as change to beginning fund balance and net assets. The effect on operations and other affected balances for the current and prior period are as follows:

	December 31,		
	<u>2006</u>	<u>2005</u>	<u>Description</u>
FUND LEVEL			
Governmental Fund			
General Operating Fund			
Due from other governmental units - State	\$ -	\$(191,061)	Correct overstated
Revenue over (under) expenditures	-	(191,061)	due from other
Fund balance - beginning	(191,061)	-	governmental units
GOVERNMENT-WIDE LEVEL			
Governmental Activities			
Due from other governmental units - State	-	(191,061)	Correct overstated
Change in net assets	-	(191,061)	due from other
Net assets - beginning	(191,061)	-	governmental units

REQUIRED SUPPLEMENTARY INFORMATION

Ingham County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 325,000	\$ 325,000	\$ 194,447	\$ (130,553)
Intergovernmental				
Federal sources				
Critical bridge	1,938,000	2,054,488	2,054,487	(1)
Urban STP	1,428,840	234,482	234,481	(1)
ISTEA D funds	-	57,286	57,285	(1)
Congestion/Air Quality funds	-	151,000	111,787	(39,213)
Other	-	-	5,118	5,118
State sources				
Motor Vehicle Highway Funds				
Engineering	10,000	10,000	10,000	-0-
Primary road	7,612,500	8,704,561	8,704,561	-0-
Local road	2,500,000	2,509,373	2,509,373	-0-
Primary urban road	1,268,750	1,352,952	1,352,951	(1)
Local urban road	472,500	469,437	466,809	(2,628)
Other D funds	-	29,184	29,183	(1)
Local sources				
Township contributions	805,427	898,415	898,415	-0-
Other contributions	10,000	55,896	61,373	5,477
Total intergovernmental	16,046,017	16,527,074	16,495,823	(31,251)
Charges of services	8,550	10,105	10,104	(1)
Interest	36,454	60,615	64,341	3,726
Other revenues	33,000	66,000	81,053	15,053
TOTAL REVENUES	<u>\$ 16,449,021</u>	<u>\$ 16,988,794</u>	<u>\$ 16,845,768</u>	<u>\$ (143,026)</u>

Ingham County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Maintenance	\$ 3,951,610	\$ 4,302,347	\$ 4,296,871	\$ 5,476
Structural improvements	4,759,207	3,377,453	3,376,283	1,170
Total primary road	8,710,817	7,679,800	7,673,154	6,646
Local road				
Maintenance	3,130,127	3,348,119	3,340,405	7,714
Structural improvements	1,749,729	1,760,612	1,761,453	(841)
Total local road	4,879,856	5,108,731	5,101,858	6,873
Equipment				
Direct	1,682,988	1,396,263	1,388,298	7,965
Indirect	1,676,757	1,355,822	1,360,658	(4,836)
Operating	400,000	343,958	343,957	1
Less: Equipment rental	(3,000,000)	(1,934,426)	(1,934,426)	-0-
Total equipment	759,745	1,161,617	1,158,487	3,130
Administrative				
Administration	1,701,458	1,371,902	1,370,091	1,811
Less:				
Overhead - State	(2,500)	(9,244)	(9,244)	-0-
Purchase discount	(1,550)	(830)	(828)	(2)
Total administrative	1,697,408	1,361,828	1,360,019	1,809
Drain assessment	180,000	174,625	174,625	-0-
Capital outlay				
Capital outlay	847,503	484,894	355,665	129,229
Less:				
Depreciation and depletion	(1,500,000)	(1,000,000)	(782,441)	(217,559)
Total capital outlay	(652,497)	(515,106)	(426,776)	(88,330)

Ingham County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL - CONTINUED

GENERAL OPERATING FUND

Year Ended December 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES - CONTINUED				
Debt service				
Principal payments	\$ 110,848	\$ 69,748	\$ 77,280	\$ (7,532)
Interest payments	12,194	12,194	4,662	7,532
Total debt service	123,042	81,942	81,942	-0-
TOTAL EXPENDITURES	<u>\$ 15,698,371</u>	<u>\$ 15,053,437</u>	<u>\$ 15,123,309</u>	<u>\$ (69,872)</u>

OTHER SUPPLEMENTARY INFORMATION

Ingham County Road Commission

STATEMENT OF CHANGES IN FUND BALANCE

GENERAL OPERATING FUND

Year Ended December 31, 2006

TOTAL REVENUES	\$ 16,845,768
TOTAL EXPENDITURES	<u>15,123,309</u>
EXCESS OF REVENUE OVER EXPENDITURES	1,722,459
Fund balance, beginning of year	2,928,377
Prior period adjustment	<u>(191,061)</u>
Fund balance, end of year	<u><u>\$ 4,459,775</u></u>

Ingham County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 12,382,816	\$ 4,422,577	\$ 40,375	\$ 16,845,768
TOTAL EXPENDITURES	8,908,101	6,218,217	(3,009)	15,123,309
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	3,474,715	(1,795,640)	43,384	1,722,459
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	1,734,754	-	1,734,754
Optional transfers out	(1,734,754)	-	-	(1,734,754)
TOTAL OTHER FINANCING SOURCES (USES)	(1,734,754)	1,734,754	-0-	-0-
CHANGE IN FUND BALANCE	1,739,961	(60,886)	43,384	1,722,459
Fund balance, beginning of year	1,173,499	729,963	1,024,915	2,928,377
Prior period adjustment	(76,564)	(47,626)	(66,871)	(191,061)
Fund balance, end of year	<u>\$ 2,836,896</u>	<u>\$ 621,451</u>	<u>\$ 1,001,428</u>	<u>\$ 4,459,775</u>

Ingham County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ 97,223	\$ 97,224	\$ -	\$ 194,447
Intergovernmental				
Federal sources	2,143,426	319,732	-	2,463,158
State sources	10,092,895	2,979,982	-	13,072,877
Local sources	-	959,788	-	959,788
Total intergovernmental	12,236,321	4,259,502	-0-	16,495,823
Charges for services	4,049	2,519	3,536	10,104
Interest	25,784	16,038	22,519	64,341
Other revenue	19,439	47,294	14,320	81,053
TOTAL REVENUES	<u>\$ 12,382,816</u>	<u>\$ 4,422,577</u>	<u>\$ 40,375</u>	<u>\$ 16,845,768</u>

Ingham County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2006

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Structural improvements	3,376,283	1,761,453	-	5,137,736
Maintenance	4,296,871	3,340,405	-	7,637,276
Equipment expense - net	481,583	573,219	103,685	1,158,487
Administrative expense -net	816,879	543,140	-	1,360,019
Capital outlay - net	(320,082)	-	(106,694)	(426,776)
Drain assessment	174,625	-	-	174,625
Debt service	81,942	-	-	81,942
TOTAL EXPENDITURES	<u>\$ 8,908,101</u>	<u>\$ 6,218,217</u>	<u>\$ (3,009)</u>	<u>\$ 15,123,309</u>

Ingham County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2006

	Balance Jan. 1, 2006	Additons	Deletions	Balance Dec. 31, 2006
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 1,964,787	\$ 9,340	\$ -	\$ 1,974,127
Infrastructure - land improvements	16,721,670	645,814	-	17,367,484
Subtotal	18,686,457	655,154	-0-	19,341,611
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	6,164,367	-	-	6,164,367
Equipment				
Road	8,991,172	225,500	140,497	9,076,175
Shop	243,529	-	-	243,529
Office	383,889	-	-	383,889
Computer	384,176	31,908	38,632	377,452
Engineer	148,448	-	-	148,448
Yard and storage	231,607	85,988	-	317,595
Signals	108,172	-	-	108,172
Infrastructure - Roads	107,215,506	2,181,727	-	109,397,233
Infrastructure - Bridges	9,091,222	2,310,197	-	11,401,419
Infrastructure- Subdivisions	5,734,714	1,086,624	-	6,821,338
Subtotal	138,696,802	5,921,944	179,129	144,439,617
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	(2,565,696)	(314,925)	-	(2,880,621)
Equipment				
Road	(7,617,905)	(536,796)	(140,497)	(8,014,204)
Shop	(177,260)	(15,889)	-	(193,149)
Office	(345,201)	(13,542)	-	(358,743)
Computer	(270,962)	(74,262)	(38,632)	(306,592)
Engineer	(100,448)	(24,074)	-	(124,522)
Yard and storage	(190,247)	-	-	(190,247)
Signals	(6,916)	(7,212)	-	(14,128)
Infrastructure - Roads	(57,712,858)	(4,279,260)	-	(61,992,118)
Infrastructure - Bridges	(1,869,345)	(181,825)	-	(2,051,170)
Infrastructure- Subdivisions	(120,416)	(286,735)	-	(407,151)
Subtotal	(70,977,254)	(5,734,520)	(179,129)	(76,532,645)
Net Capital Assets Being Depreciated	67,719,548	187,424	-0-	67,906,972
Total Net Capital Assets	\$ 86,406,005	\$ 842,578	\$ -0-	\$ 87,248,583

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of County Road Commissioners
Ingham County
Mason, Michigan

We have audited the accompanying component unit financial statements of the governmental activities and the major fund of the Ingham County Road Commission, as of and for the year ended December 31, 2006, and have issued our report thereon dated May 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ingham County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

2006-1 PRIOR PERIOD ADJUSTMENT

Condition: As indicated in the component unit financial statements, a material amount was recorded as a prior period adjustment in the current year to correct an error from the prior year related to an overstated receivable that was booked and never collected.

Criteria: This error was not detected by the Commission's internal control over financial reporting in the prior year and as a result there was a material misstatement in the December 31, 2005 financial statements.

Effect: The prior year financial statements contained a material misstatement that was not detected by management until after the December 31, 2005 financial statements were issued. This misstatement was also written off in 2006 as it was deemed uncollectable but the write-off of this misstatement was never discussed with the Board or brought to their attention for approval prior to being written off.

2006-1 PRIOR PERIOD ADJUSTMENT - CONTINUED

Recommendation: We recommend the Commission review procedures in the areas where these errors were noted and take steps to ensure that there is no recurrence of similar issues. Also, in the future, management should make the Board aware of all material misstatements from prior audited financial statements and approval from the Board should be obtained prior to these amounts being adjusted in the general ledger.

Corrective Action Response: Management of the Commission is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

2006-2 ADMINISTRATIVE POLICIES AND PROCEDURES

Condition: Based on our discussions with management and review of administrative policies and procedures, we noted that the Commission has not formally adopted written procedures and policies for conflicts of interest, fraud prevention, and disaster recovery.

Criteria: Documenting specific policies and procedures allows employees to have a clear understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible.

Effect: Management has not placed adequate internal control systems into operation over certain procedural areas.

Recommendation: We recommend the Commission take steps to ensure that administrative policies and procedures are formally documented as follows:

- A code of conduct should be put in place and it should include a policy on conflicts of interest and the Commission should require employees to periodically make a declaration of compliance.
- A policy on fraud prevention should define the scope of the policy and include a definition of actions constituting fraud and the appropriate procedures to follow when reporting fraud or suspicions of fraud.
- A disaster recovery plan should be put in place and it should identify areas of operation that are critical to the Commission and detail how the Commission would continue to operate in the absence of those critical areas of operation.

Corrective Action Response: Management of the Commission is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

2006-3 BUDGETS

Condition: As noted in the financial statements, some of the activities of the Commission exceeded the amounts appropriated and the total expenditure budget was exceeded. It was also noted that final budget amendments for the year were not done until after year-end instead of prior to incurring additional expenditures.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the Commission adopt formal budgets for all applicable funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed during the year and prior to incurring additional expenditures.

Effect: The Commission has not maintained adequate control over budgetary compliance in accordance with State law.

Recommendation: We recommend the Commission monitor expenditures against adopted budgets and make appropriate budget amendments prior to incurring the expenditures that exceed budgeted amounts and those budget amendments must be approved prior to year-end and presented to the Board in an appropriate format in order to keep them aware of the Commission's financial situation.

Corrective Action Response: Management of the Commission is currently reviewing procedures related to budgetary compliance in accordance with State law.

The Commission's responses to the findings identified in our audit are described above. We did not audit the Commission's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Commissioners of Ingham County Road Commission, others within the County, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 23, 2007